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## **Austria**

## **Tobacco and Products**

## **Annual**

## **2000**

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### **Report Highlights:**

**As cigarette production rose significantly, tobacco consumption and consequently tobacco imports increased in 1999. For the same reason, leaf consumption and imports should rise again in 2000. Cigarette exports increased 21% in 1999 and a further significant rise is expected in 2000.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
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## Executive Summary

Austria's small tobacco production has been stable in recent years. The 1999 yields reached a new record level and the quality was excellent. Due to long period of dry weather, output should decline in 2000.

As cigarette production increased significantly, tobacco consumption and consequently tobacco imports increased in 1999. For the same reason, leaf consumption and imports should rise again in 2000.

Given the drop in tax advantages of duty free shops within the EU in mid 1999 and sharper border controls, cigarette sales rose 3.5% in 1999 compared to 1998. These measures may also have some positive effect on year 2000 sales. However, in general the market is regarded as being saturated.

Cigarette exports increased 21% in 1999, primarily due to larger deliveries to Germany. For the same reason, a significant export rise should take place in 2000.

Average rate of exchange: US dollar 1 = AS 12.38 in 1998

AS 12.91 in 1999

AS 14.94 on May 15, 2000

## Tobacco, Unmfg., Total

### Production

PSD Table						
Country	Austria					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	101	101	102	101	0	102
Beginning Stocks	14371	14371	15205	15205	15400	15028
Farm Sales Weight Prod	205	205	175	216	0	208
Dry Weight Production	181	181	155	191	0	184
U.S. Leaf Imports	2195	2195	2200	2400	0	2450
Other Foreign Imports	15494	15494	15900	15990	0	17100
TOTAL Imports	17689	17689	18100	18390	0	19550
TOTAL SUPPLY	32241	32241	33460	33786	15400	34762
Exports	220	220	420	120	0	180
Dom. Leaf Consumption	130	130	200	140	0	190
U.S. Leaf Dom. Consum.	2180	2180	2240	2448	0	2460
Other Foreign Consump.	14506	14506	15200	16050	0	16550
TOTAL Dom. Consumption	16816	16816	17640	18638	0	19200
TOTAL Disappearance	17036	17036	18060	18758	0	19380
Ending Stocks	15205	15205	15400	15028	0	15382
TOTAL DISTRIBUTION	32241	32241	33460	33786	0	34762

### Crop Area

Both the number of producers and tobacco area in Austria have been stable in recent years. No change is expected in the near term.

The main type of Austria's limited tobacco production is burley. Production tests with dark flue cured tobacco intended for cigars were given up as the quality was not satisfactory and drying costs too high.

Tobacco is collected by the tobacco producer organization and shipped to the company Diamon Rota in Karlsruhe, Germany, for processing.

Austria Tabak's (AT) commitment to buy all Austrian tobacco output expired in 1998. Nevertheless, AT will continue to use up all domestic burley production. The tobacco producers association has a three-year

agreement with the producer organization and the tobacco processing firm. After expiration of the current agreement, renewal is expected.

## **Yields**

Weather conditions were excellent for tobacco production in 1999 which resulted in a new record yield of 2.1 MT/ha. Blue mold was no problem due to the timely application of the fungicide ridomil.

In 2000, tobacco plants developed extraordinarily well in seed beds because of high temperatures. However, the continued hot and dry weather has been unfavorable for transplanted seedlings. Austrian tobacco farmers are not equipped with irrigation facilities. Due to the warm weather, transplantation into fields will be finished by mid-May.

## **Quality**

Excellent 1999 weather conditions resulted not only in a new record for output but also in exceptionally high quality. There was only a little hail damage and 93% of the total crop was first and second grade.

## **Production Policy**

In contrast to the pre-EU period, tobacco growing is no longer regulated by the monopoly law which required a license from Austria Tobacco. Since EU membership, interested farmers must apply to Agricultural Market Austria (AMA), which is responsible for Austria's EU production quotas and direct payments. Due to Austria's relatively large tobacco quota (600 MT), newcomers are gladly accepted.

In 1999, the producer price for first grade tobacco was AS 16.50/kg, second grade AS 12.00/kg, and for third grade AS 1.00/kg. In 1998, the price for first and second grade tobacco was AS 14.20/kg and for third grade AS 0.50/kg. In addition to the base price, tobacco producers received the normal EU premiums (average fixed EU premium of AS 37.07/kg for tobaccos with a certain minimum quality and average variable premium AS 6.87 for first and second grade tobacco.) In 2000, the fixed premiums will be reduced to about AS 34/kg and the variable premium to AS 9/kg.

## **Consumption**

The increased cigarette output tracked a corresponding rise in tobacco consumption in 1999. In 2000, the expected rise in cigarette output should match further growth in tobacco consumption. Leaf use for other tobacco products than cigarettes is small.

## **Trade**

Official 1999 tobacco trade data cannot be used as they are much too low. The problems due to the change to the EU survey system have not been overcome for tobacco. Instead of official trade data, figures provided by AT were used in PSDs. However, as AT cannot provide trade figures by countries so no trade matrix is provided.

Given increased demand, imports in 1999 rose 4% compared to 1998. The larger requirements resulted in increased imports of U.S. tobacco (total U.S. volume 2,400 MT, i.e. +9%).

In 2000, tobacco imports should again rise because of the expected increase in cigarette production. The larger requirement may also result in increased imports of U.S. tobacco.

As Phillip Morris does not reveal its tobacco recipes for its cigarettes produced under license in Austria, already blended tobacco for these cigarettes is imported from the U.S. Blends for other U.S. license cigarettes are prepared by AT.

## **Marketing**

The production monopoly for cigarettes remains with AT despite EU membership. Thus, all promotional activities have to be conducted by AT. According to AT, no foreign countries promote their tobacco in Austria.

A certain quantity of U.S. tobaccos will always be required since the special flavor of these tobaccos can hardly be replaced by leaf from other countries. In addition, special blends for Marlboro licensed cigarettes will come from the U.S. for at least the next 8 years.

**Tobacco, Mfg., Cigarettes****Production**

<b>PSD Table</b>						
<b>Country</b>	<b>Austria</b>					
<b>Commodity</b>	<b>Tobacco, Mfg., Cigarettes</b>				<b>(MIL PCS)</b>	
	<b>Revised</b>	<b>1998</b>	<b>Preliminary</b>	<b>1999</b>	<b>Forecast</b>	<b>2000</b>
	<b>Old</b>	<b>New</b>	<b>Old</b>	<b>New</b>	<b>Old</b>	<b>New</b>
<b>Market Year Begin</b>		<b>01/1998</b>		<b>01/1999</b>		<b>01/2000</b>
<b>Filter Production</b>	<b>22321</b>	<b>22321</b>	<b>23100</b>	<b>24520</b>	<b>0</b>	<b>25200</b>
<b>Non-Filter Production</b>	<b>190</b>	<b>190</b>	<b>200</b>	<b>76</b>	<b>0</b>	<b>100</b>
<b>TOTAL Production</b>	<b>22511</b>	<b>22511</b>	<b>23300</b>	<b>24596</b>	<b>0</b>	<b>25300</b>
<b>Imports</b>	<b>1392</b>	<b>1392</b>	<b>1500</b>	<b>1602</b>	<b>0</b>	<b>1900</b>
<b>TOTAL SUPPLY</b>	<b>23903</b>	<b>23903</b>	<b>24800</b>	<b>26198</b>	<b>0</b>	<b>27200</b>
<b>Exports</b>	<b>8400</b>	<b>8400</b>	<b>9200</b>	<b>10171</b>	<b>0</b>	<b>12700</b>
<b>Domestic Consumption</b>	<b>15503</b>	<b>15503</b>	<b>15600</b>	<b>16027</b>	<b>0</b>	<b>14500</b>
<b>TOTAL DISTRIBUTION</b>	<b>23903</b>	<b>23903</b>	<b>24800</b>	<b>26198</b>	<b>0</b>	<b>27200</b>

AT's cigarette factories are located in Linz (8 - 9 billion pieces/year, 84 employees), Hainburg (6 - 7 billion pieces/year, 187 employees), and Schwarz (about 4 billion pieces/year, 84 million employees). In addition, AT owns a cigar factory in Fuerstenfeld where 54 workers are employed. All plants produce AT's own brands (42) and licensed brands (21) including U.S. brands of Philip Morris, Rendsma, Reynolds, BRT, and Brown and Williams.

Since 1999, AT owns also a cigarette factory in Sweden. To save costs, within the next 5 years this factory or one of the three Austrian cigarette plants will be closed.

Given the high requirement, 1999 cigarette production increased by 8%. As usual, the major share (99.7%, i.e. +3.6%) were filter-tipped cigarettes.

Due to expected rise in exports, the 2000 production should increase by about 2 - 3%. The share of filter-tipped cigarettes will probably again increase marginally.

In 1998/99, production of several slowly selling brands was canceled. However, in 2000 no brands will be taken out from production. The 2000 assortment is enriched by the new brand Nile, introduced to the market in spring, and another brand which will appear in fall or winter in the Austrian market. Both cigarette types are AT's own brands.

A number of AT's cigarettes are manufactured under license in Hungary, Slovakia, Czech Republic, and

Croatia, which produce each year a combined number of about 0.5 billion Austrian brand cigarettes. Due to the 1999 acquisition of the Swedish cigarette factory Swedish Match, AT's cigarette sales on international markets rose 48% to 13.2 billion in 1999.

## Consumption

In 1999, 15.6 billion cigarettes were officially sold in Austria, which is the highest number ever sold on the domestic market. (Note: The correct consumption figures for 1998 are 15.051 billion, 1999 15.585 billion, and 2000 15.600 billion pieces. Since PSD tables do not include stocks, domestic consumption figures had to be adjusted to balance total supply and distribution.) Of this number, 55.6% were AT's own brands, 35.3% license brands and 9.1% imported cigarettes.

According to AT, the large consumption increase of 3.5% is still a consequence of the changes in the legal framework governing private imports (since July 1, 1998, the permitted private imports of cigarettes from third countries has been reduced from 200 pieces to 25 pieces) and sharper border controls. Thus, the increased sale is less a real increase in cigarette consumption than a shift from private imports or smuggling to legal domestic purchases by smokers.

At the end of December 1999, the brand range on the Austrian market included 42 AT brands, 21 license brands, and 66 imported brands. However, six brands account for nearly 56% of total consumption. They are as follows:

Memphis Classic	16.2%
Marlboro	13.6%
Marlboro Lights	10.2%
Milde Sorte Classic	7.6%
Memphis Lights	5.3%
Gauloises and Legeres	3.1%

In 2000, domestic sales are expected to remain on the 1999 level or rise marginally as the tax advantages of duty free shops within the EU were abolished on June 1, 1999. Thus, there will be no more reason to buy larger quantities from these outlets. However, a real rise in the number of smokers is not expected any more.

Anti-smoking campaigns are infrequent, weak and show practically no effect.

Due to rising imports by AT, the number of brands fluctuates considerably within a year but shows a distinct upward trend. Since EU accession, AT has been offering a constantly increasing number of imported cigarettes and imported brands. However, the number of AT's own brands and license brands has remained remained stable and no change is expected. In addition, little fluctuation should take place within the leading six cigarette brands.

According to AT, in Austria there are 6.5 million persons above 16 years of which around 30% are smokers. (Smokers are only counted if they are above 16 years. Smoking is legally permitted above this age.) The average smoker smokes 23 cigarettes per day which results in around 17 billion cigarettes total annual consumption of the Austrian population. Thus, theoretically the market would be saturated with 17 billion pieces. However, due to legal and illegal private imports, this figure cannot be reached.

## Prices

On April 1, 2000, prices for 40 cigarette brands were increased by AS 1 - AS 2 per package (20 pieces). The rise was a consequence of the government's demand for higher tobacco tax returns by AS 600 million. Although some members of parliament demanded a further tax rise, it is not expected that this will take place in the current year.

Since the recent price rise was only small, it should not have consequences on cigarette sales.

The current price (in AS/piece) is as follows (old price in parenthesis):

Milde Sorte	1.75	(1.65)
Milde Sorte de Luxe	1.90	(1.80)
Memphis Classic	1.75	(1.65)
Memphis Lights	1.80	(1.65)
Gauloises Blondes	1.95	(1.90)
Hobby	1.70	(1.60)
Falk	1.70	(1.60)
York	1.70	(1.60)
Dames Filter	1.70	(1.60)
Players #6	2.05	(2.00)
Smart Export	1.70	(1.60)
Camel Medium	2.05	(2.00)
Flirt Filter	1.55	(1.45)
Kim	2.10	(1.95)
Jonny filter	1.70	(1.60)
Marlboro Lights 100s	2.20	(2.15)
Player's M.N.C.	2.10	(2.05)
Chesterfield Original	2.00	(1.95)
Benson & Hedges	2.10	(2.05)
Cartier Vendome Lights	2.30	(2.25)
Davidoff Classic	2.20	(2.15)
Dunhill International	2.30	(2.25)
Kent Deluxe	2.10	(2.05)
Marlboro Medium	2.10	(2.05)



Philip Morris Super Lights 2.10 (2.05)

US dollar 1 = AS 14.94 on May 15, 2000

#### Retail Trade

All outlets of tobacco and tobacco products (special tobacco shops, hotels, restaurants, gas stations, etc.) must have a license from an agency of the Finance Ministry. In Austria there are 3200 special tobacco shops ("trafiken") and 5800 other outlets (hotels, etc.). The latter buy from special tobacco shops ("trafiken") and add a profit margin of up to 20% to the normal retail price.

#### Trade

Export Trade Matrix			
Country	Austria		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1998	Units:	1999
Exports for:		Million Pieces	1
U.S.	43	U.S.	
Others		Others	
Germany	5204	Germany	6087
Guinea	1352	Guinea	1985
United Kingdom	297	United Kingdom	277
Slovenia	284	Slovenia	248
Jugoslavia	258	Somalia	227
Ukraine	252	Italy	165
Italy	165	Netherlands	158
Greece	153	Greece	152
Somalia	131	Jugoslavia	139
Hungary	74	Hungary	121
Total for Others	8170		9559
Others not Listed	646		612
Grand Total	8859		10171

Import Trade Matrix			
Country	Austria		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1998	Units:	1999

Imports for:		Million Pieces	1
U.S.	3	U.S.	0
Others		Others	
Germany	742	Germany	752
France	413	France	582
Netherlands	116	United Kingdom	96
United Kingdom	85	Netherlands	89
Italy	20	Japan	48
Denmark	8	Brazil	13
Belgium	2	Italy	12
Sweden	2	Denmark	9
		Belgium	1
Total for Others	1388		1602
Others not Listed			
Grand Total	1391		1602

### Exports

Around 68% of cigarette exports went to other EU countries in 1999. Thanks to AT's distribution group Lekkerland - Tobaccoland, AT has been the market leader for generic cigarettes in Germany. In 1999, Austria succeeded in stepping up exports to Germany by 17% compared to 1998. Branded cigarette sales have remained on a low level. Exports to Italy were the same while those to Greece declined slightly and to United Kingdom considerably. Sales volume to CIS area fell as a result of the economic crisis but exports to central and south east Europe grew. In Asia, AT focused primarily on the Japanese market. In the Yokohama area, the distribution network has been expanded. Nevertheless, exports to Japan were below expectations. In west and east Africa, Austria achieved record sales. In Guinea, AT' market leadership was expanded to 90%.

In 2000, exports will rise again. Due to the continued rise in demand for generics, the largest increase is expected in shipments to Germany. However, larger exports should also go to Slovenia, South Korea, and possibly Taiwan.

### Imports

Since EU accession, cigarette imports have risen steadily. In 1999, deliveries from abroad rose by 18.6%. While in 1998 3 million U.S. cigarettes intended for the UN commissary were imported, none came in 1999. Except a small amount from Brazil and Japan, all supplies came from EU countries. The trend to increasing cigarette imports from EU countries should continue in 2000 and the short term future. As in the past years, the bulk should come from other EU countries, particularly Germany and France.

### Policy

For several years, the government had intended to sell most shares of the government-owned AT. The Austrian Industry Share Holding (a government organization which is responsible for the privatization of state owned companies) which is currently holding 41.1% of total AT shares will probably reduce its share to 31% in fall 2000 or in 2001. However, there are also discussions in the government to sell all state-owned shares.

## **Marketing**

Since sales can only be made through AT, which is interested in promoting its own brands, there are no market development opportunities for cigarettes imported from the U.S. AT is the only importer of tobacco and cigarettes, and the only producer of tobacco products. Despite the fall of the wholesale monopoly, AT still controls practically the whole tobacco/products market. Legally tobacco trade is liberalized but in practical terms AT has still a monopoly position.